

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

----- In the Matter of -----)

PUBLIC UTILITIES COMMISSION)

Instituting a Proceeding to Investigate the)
Issues and Requirements Raised by, and)
Contained in, Hawaii Revised Statutes)
Chapter 486H, as Amended)

DOCKET NO. 05-0002

CHEVRON U.S.A. INC.'S SUPPLEMENTAL RESPONSE TO ORDER NO. 22056

AND

CERTIFICATE OF SERVICE

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PUBLIC UTILITIES
COMMISSION

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CHEVRON U.S.A. INC.'S SUPPLEMENTAL RESPONSE TO ORDER NO. 22056

CHEVRON U.S.A. INC. ("Chevron"), by and through its counsel, hereby provides its supplemental response to the Public Utilities Commission of the State of Hawaii's ("Commission") Order No. 22056 issued on September 28, 2005 which sought a proposal to adjust the HRS § 468H-13 factors to include the addition of ethanol blending requirements, which would take effect on or about April 2006.¹

I. BACKGROUND.

In its November 1, 2005 filing, Chevron offered, among other things, an initial perspective to address the Commission's request for a proposal on the recovery of ethanol blending and associated costs. While capital and other operational costs associated with compliance with the ethanol mandate were reasonably estimable at that time, the cost of importing ethanol was not. For that reason, Chevron indicated that it could not, at that time, make a proposal to adjust the HRS § 468H-13 factors to include the addition of ethanol blending requirements. Chevron was concerned that, given the complexity of ethanol import supply issues, it was not, at that point, in a position to

¹ Order No. 22056 also requested that the parties provide a marketing margin proposal further refining the class of trade approach suggested by ICF Consulting, LLC. Chevron filed its marketing margin proposal on November 1, 2005.

furnish the Commission with a complete answer. Since then, Chevron has worked hard to analyze the complicated supply issues implicated by the Commission's request and to arrive at the proposal described below.

Accordingly, by this filing, Chevron supplements its November 1, 2005 submission by providing its proposed suggestions on how the Commission can adjust the HRS § 468H-13 factors to include the addition of ethanol blending requirements.

II. DISCUSSION.

On August 1, 2005 the Commission issued Decision and Order No. 21952 and established, among other things, the factors that should be used in the HRS Chapter 486H maximum pre-tax wholesale price calculation for gasoline. Despite its efforts to implement the gas cap legislation, the Commission recognized that there were substantial concerns and risks associated with the implementation of the gas price caps as required by the gasoline price cap law.² The ethanol blending requirements was one of the risks identified by the Commission. As the Commission noted, "[c]ompounding the uncertainty of the gas price cap impacts are State ethanol blending mandates that go into effect in April 2006."³

A. Chevron Has Incurred Significant Capital and Other Costs.

With the ethanol blending requirements scheduled to become effective on April 2, 2006, Chevron has already invested heavily in its terminals and supply chain in preparation for compliance with the ethanol blending mandate. As part of its ramp up activities, Chevron's Hawaii refinery is making necessary operational changes to produce the HIBOB (Hawaii Blendstock for Oxygenate Blend) required for ethanol

² Order No. 21952, dated August 1, 2005, Docket No. 05-0002, at pg. 34.

³ Id. at pg. 34-35. HAR Section 15-35-3, Ethanol Content in Gasoline, requires "at least eighty-five per cent of all gasoline supplied to a retailer, sold at retail, or sold to a private, state or municipal fleet for use in motor vehicles in the State of Hawaii shall contain ten per cent ethanol by volume."

blending. Additionally, construction has been undertaken at Chevron's proprietary terminals to establish dedicated ethanol tanks, pipes, pumps, and blending systems for receiving, loading, storing and blending ethanol. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

B. The Cost of Ethanol Will Be Subject to Additional Charges and Increased Uncertainty.

Of course, in addition to the capital and operational expenses summarized above, Chevron will incur the cost of acquiring ethanol. At least for the near future, ethanol must be imported to Hawaii since there is no on-island supply.⁴ Along with the cost of ethanol product itself, overall import costs will include freight, wharfage and port fees. Moreover, depending upon the source of the ethanol supply, duty, denaturing, terminaling, and demurrage costs may also be incurred by Chevron. As previously stated in Chevron's partial response to Order No. 22056 filed on November 1, 2006, historical ethanol and gasoline price patterns bear no relationship. In fact, ethanol prices have tended to exhibit a more volatile price behavior than gasoline. The absence

⁴ Based on published reports and information received through DBEDT, it does not appear that locally produced ethanol will be available in Hawaii until mid-2007.

of local ethanol production and the lack of an established ethanol import supply to Hawaii increases the supply risk.

C. **The Commission Will Necessarily Need to Adjust the Gas Cap Formula to Account for The Additional Costs.**

Chevron agrees with the recommendation of ICF Consulting, LLC that the gas cap needs to be amended to reflect the changing local gasoline market resulting from the ethanol blending requirement. Chevron believes it is appropriate for the Commission to account for the additional costs associated with blending ethanol by adjusting the gas cap formula. Because of the physical and operational logistics involved in implementing the blending process by the April 2, 2006 deadline, Chevron will begin blending ethanol in early March starting with its Hilo terminal. Chevron will thereafter stagger the ethanol blending in each of its terminals so that its entire operations will be in full compliance by the April 2, 2006 deadline. For this reason, Chevron respectfully requests that the Commission adopt appropriate adjustments to the price cap formulas prior to the commencement of blending.

1. **Chevron's Proposed Amended Formula for Ethanol Blended Gasoline in Hawaii**

Attached hereto as Exhibit A, and incorporated herein by reference, is Chevron's proposed amended formula to account for blending 10% ethanol. The following briefly summarizes each of the components of the proposed amended formula.

a. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

b.

[REDACTED]

[REDACTED]

[REDACTED]

c.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.

[REDACTED]

[REDACTED]

[REDACTED]

3.

[REDACTED]

[REDACTED]

III. **CONCLUSION.**

Chevron has incurred significant costs in preparation for complying with the ethanol blending mandate. In addition to incurring capital expenditures, Chevron is also incurring other costs, including those related to the importation of ethanol to Hawaii. Due to the lack of a local ethanol supply and uncertainty of supply of ethanol imports, Chevron may incur still further costs in connection with the imports.

Without in any way endorsing the gas cap, Chevron has provided its proposal in response to Order No. 22056 to assist the Commission with the task of reconciling the gas cap and the ethanol blending mandate. With the start of ethanol blending fast approaching, Chevron believes it is imperative that the Commission consider Chevron's proposal as soon as possible, but certainly before the April 2, 2006 implementation date for ethanol blending.

DATED: Honolulu, Hawaii, February 24, 2006



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⁵ Implementation Recommendations for Hawaii Revised Statutes Chapter 486H, Gasoline Price Cap Legislation, prepared by ICF Consulting, LLC dated April 15, 2005, at pgs. 2 and 20,

EXHIBIT A

[The entire Exhibit A has been redacted pursuant to Protective Order No. 21669.]

CERTIFICATE OF SERVICE

I hereby certify that on this date I served copies of the foregoing document upon the following parties, by causing hereof to be mailed, postage prepaid, properly addressed, or hand delivered, to the following:

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